

# FISCAL NOTE

**Bill #:** HB0109

**Title:** Establish automated video gambling,  
accounting and reporting system

**Primary**

**Sponsor:** John A. Mercer

**Status:** As introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date
-------------------	------	-----------------------------	------

## Fiscal Summary

	<b><u>FY2000 Difference</u></b>	<b><u>FY2001 Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$0	\$1,500,000
State Special Revenue	0	563,500
<b>Revenue:</b>		
General Fund	\$0	\$94,000
<b>Net Impact on General Fund Balance:</b>	<b>\$0</b>	<b>(\$1,406,000)</b>

<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

## Fiscal Analysis

### ASSUMPTIONS:

1. In FY2001, the Department of Justice (DOJ) will award to the successful bidder a \$2,000,000 contract for the purchase and installation of the hardware and software for the Automated Accounting and Reporting System (AARS). That amount will be funded by a \$1,500,000 general fund appropriation and \$500,000 from the Gambling State Special Revenue account.
2. AARS will become operational on April 1, 2001. At that time, 70% of the capable video gambling machines (VGM), or 10,300 machines, will go online.

(continued)

3. The annual operating budget of the Gambling Control Division will increase by \$180,000 to operate the AARS. The breakdown of that amount is: 2 grade 16 technicians - \$74,000; telephone costs - \$60,000; AARS maintenance contract - \$20,000; and other costs - \$26,000. In FY2001, one-half of the personal services will be needed (\$37,000), and one-fourth of the operating, or \$26,500.
4. The \$250 tax credit per machine will be recognized in the first quarter of FY2002. The tax credit will total \$2,575,000 (\$250 x 10,300 machines).
5. It is estimated that tax revenue will increase \$1,124,000 per year as a result of AARS. That amount is split one-third to the state general fund, or \$375,000 and two-thirds to local governments, \$749,000. One-fourth of the annual amount will be collected in FY2001. The DOJ estimated revenue growth by comparing the average weekly income from Montana devices with weekly averages of South Dakota, then adjusted for the number of machines and population. South Dakota has used an automated system since the inception of gambling in the state in 1989. The DOJ calculates that a South Dakota machine earns an average of \$8.35 more per week compared to a Montana machine. That amount is applied to the total population of current machines (17,260), to derive the revenue increase, because the DOJ expects to devote its limited compliance resources to devices not linked to AARS, and as a result, a comparable revenue growth rate can be applied to those devices as well.

FISCAL IMPACT:

	<u>FY2000</u> <u>Difference</u>	<u>FY2001</u> <u>Difference</u>
FTE	0.00	1.00

Expenditures:

Personal Services	\$0	\$37,000
Operating Expenses	0	26,500
Equipment	<u>0</u>	<u>2,000,000</u>
TOTAL	0	2,063,500

Funding:

General Fund (01)	0	\$1,500,000
State Special Revenue (02)	0	563,500

Revenues:

General Fund (01)	0	\$94,000
-------------------	---	----------

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	\$0	(\$1,406,000)
State Special Revenue (02)	0	(563,500)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

In FY2001 local governments will receive \$187,000 additional revenue due to implementation of AARS. Local governments receive two-thirds of the 15% tax on video gambling machine revenue. The \$250 tax credit allowed in sections 5 and 6, will be removed prior to state and local distributions of the tax. Thus, in

(continued)

FY2002, local governments will receive \$1,717,000 less in distributions due to the tax credit, but will receive \$749,000 more due to the anticipated efficiencies of the automated system, or a net loss of \$968,000. In FY2003 and thereafter, revenues to local governments are estimated to increase \$749,000 per year.

LONG-RANGE IMPACTS:

The net impact on the general fund balance in FY2002 will be (\$483,000). This is a combination of the effect of the state's share of the tax credit (\$858,000), and the estimated new revenue of \$375,000. In FY2003 and thereafter, the general fund's net impact will be a positive \$375,000.

TECHNICAL NOTES:

1. Section 8 appropriates from the "video gambling machine tax account" in the special revenue fund. The state special revenue fund that provides operating funds for the Gambling Control Division derives its revenue from license fees and is known as the Gambling State Special Revenue account.